

LEGISLATIVE ALERT

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THE MAJORITY'S FINAL AMT PATCH GETTING IT RIGHT – AFTER NEEDLESS DELAY (H.R. 3996)

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Having failed to raise taxes under the guise of tax “relief,” House Democrats are finally passing a “clean” (without “offsetting” tax hikes) one-year patch for the alternative minimum tax [AMT], as adopted yesterday by the Senate. But although this measure reaches the right goal – protecting middle-income earners from the AMT – the Democrats have unnecessarily caused delay and confusion in the Internal Revenue Service’s efforts to provide tax refunds, and in taxpayers’ efforts to prepare their returns for 2007. Key points:

- ***This Is Not a New Tax Cut.*** As is well known, the AMT was conceived solely for a small number of the wealthiest taxpayers. Now, however, it threatens to ensnare 23 million middle-income earners, because Congress failed to index the tax for inflation. Democrats themselves have conceded this was never intended. But preventing the tax from reaching these additional filers is *not* a new tax *cut* – and taxpayers should not have to “pay for” Congress’s past mistake (as House Democrats previously tried to do).
- ***The Majority Has Neutered Their Own Budget Rules.*** In accepting the Senate version of the AMT patch, House Democrats have waived their pay-as-you-go [PAYGO] rule. Although PAYGO should never have applied to the AMT, it would be regrettable if this action set a precedent in which Democrats in the future failed to offset spending increases with spending reductions.
- ***The Bill Fails to Extend Other Tax Relief Measures.*** Although the bill retains AMT protection, it fails to extend other tax relief for individuals and businesses – most notably the Research & Experimentation [R&E] Tax Credit and the State and Local Sales Tax Deduction. This will result in additional tax increases.
- ***Raising Taxes Now Would Be the Worst Policy.*** U.S. economic fundamentals remain strong, but the economy is facing serious challenges, including a credit squeeze, a decline in housing prices, and the threat of inflation. Raising taxes would be exactly the wrong prescription for the economy’s health. But the problem is far from “fixed”: Democrats still want the AMT revenue (to chase their higher-spending ambitions), and they surely will come back again next year and try to collect it.
- ***Why Not Slow the Growth of Spending?*** If Democrats were truly concerned about budget deficits, they would look to where the real fiscal problem lies: in the unsustainable growth of government *spending*. Instead, however, they have spent most of the year trying to spend and tax more.